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CURRENT INTELLIGENCE WEEKLY SUMMARY



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PART I

OF IMMEDIATE INTEREST

EAST-WEST NEGOTIATIONS

In agreeing to a foreign ministers' conference on 11 May in Geneva, the Soviet notes replying to the Western notes of 26 March sought to strengthen the impression that the three Western powers have already accepted a summit meeting this summer.

Khrushchev's decision not to obstruct the convening of the ministerial conference by insisting on the participation at the outset of Poland and Czechoslovakia was evident in Moscow's agreement to leave this question for the conference itself to decide. The Soviet notes, however, leave the USSR free to raise this issue as soon as the meeting convenes.

While the Soviet reply indicated agreement to Western proposals on the date, place, and agenda of the proposed conference, its emphasis on a German peace treaty and Berlin as "concrete issues...long awaiting decisions" suggests that Moscow will insist that substantive discussions be confined to these issues and maintain its refusal to discuss German reunification.

Soviet propaganda has asserted that a summit meeting will be needed regardless of progress made by the ministers and that lack of success at the lower level would make summit talks all the more necessary. Soviet propaganda is charging that the Western position linking a summit meeting to progress at the foreign ministers' conference reflects either a desire to block the path to the summit or to "avoid it altogether."

Khrushchev in his press conference on 19 March assumed that both the foreign ministers and heads of government would meet and said he was certain reason would prevail and they will be able to overcome the obstacles to agreement.

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In line with its professed optimism over the prospects for agreement at the summit on Berlin and a German peace treaty, Moscow has made consistent efforts since November to reassure the Soviet people that no grave risk of war over Berlin exists. While there have been scattered articles in the Soviet press conveying the impression of hysteria and bellicosity in the United States, there has been no campaign charging the existence of an American "war psychosis." The American Embassy believes the Soviet public now is more concerned over a war threat than before Khrushchev's Berlin moves, but less than during the Suez and Taiwan Strait crises. There have been no rumors of hoarding which were prevalent during the earlier crisis.

On the eve of the tenth anniversary meeting of the NATO foreign ministers, Moscow published its customary diatribe against this Western "instrument for aggression." The Soviet Government statement contrasted NATO's preparations for war with the constant strivings of the USSR and the "socialist camp" for peace and, in this connection, repeated Soviet proposals for a free city of West Berlin, a German peace treaty, a nonaggression pact, disarmament, and disengagement.

A TASS statement, three days after De Gaulle's 25 March press conference, reflected Moscow's hope that despite the French leader's firm stand on Berlin, his views on other German questions could be exploited. There have been indications

that the Soviet leaders have been uncertain of De Gaulle's attitude on the German question.

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Moscow now may see its first opportunity in the present crisis to play up the French leader's independent approach to world politics. TASS endorsed De Gaulle's suggestion for increased East - West German contacts and termed his statement that Germany's present frontiers should not be changed "a correct and realistic approach." Moscow will probably attempt further to exploit these statements in its effort to gain Western recognition of East Germany with its eastern frontier at the Oder-Neisse.

On the other hand, the TASS statement professed "more than amazement" at the "allegation" in the French note of 26 March that the USSR had created the crisis over Berlin and at De Gaulle's declaration of intention to maintain Western access to Berlin--attributing his "bellicose utterances" to pressure from Washington and Bonn.

East Germany

East Germany is making preparations to send, reportedly for three or four weeks, a delegation headed by Foreign Minister Lothar Bolz to the ministerial conference in Geneva.

The East Germans are accommodating themselves with some

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difficulty to the less strident Soviet line on Berlin. East German spokesmen have performed an about-face on the 27 May "deadline." When asked what will happen on that date, East Berlin party boss Paul Verner replied, "May 27 is followed by May 28, and it has exactly 24 hours." The East Berlin party organization, which has the duty of conducting pro-Ulbricht propaganda in West Berlin, is reportedly experiencing major difficulties in soft-pedaling its former hard-line approach, although the local party organization was completely shaken up last month in an effort to strengthen its effectiveness.

Soviet troops belonging to the Berlin headquarters at Karlshorst have not been reduced in strength.

the United States was attempting to alter unilaterally flight regulations of long standing without negotiating the matter with Soviet authorities.

When the plan for the 27 March flight was filed with the Berlin Air Safety Center approximately one hour before the aircraft was scheduled to enter the corridor, the Soviet member refused to give a guarantee of flight safety on the grounds that altitudes above 10,000 feet are reserved for Soviet and East German aircraft. Soviet officials in Berlin promptly protested the flight, and warned that the United States would be responsible for any "undesirable consequences." The Allied position is that there is no ceiling for flights in the corridor, even though Allied aircraft have not regularly flown above 10,000 feet.

Soviet fighter planes harassed the American aircraft on both the inbound and outbound flights, flying at times within five to ten feet and making intercept passes. Ambassador Bruce in Bonn filed a protest against the harassment with Soviet authorities in Berlin, with the request that they take action to prevent a recurrence of such interference with any future flights through the corridors under rights established by quadripartite agreements.

Corridor Incident

Following a high-altitude flight to Berlin by an American Air Force transport aircraft on 27 March, the Russians have warned that "complications" might result from a repetition of flights above 10,000 feet by Allied aircraft in the Berlin air corridors. A Soviet official in East Berlin charged that

West Germany

On the eve of the NATO foreign ministers' discussions, West German Foreign Minister Brentano took a stronger public stand against possible concessions by Bonn on unification and the eastern boundary question. He termed a phased unification plan without prior free

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elections as "unthinkable" and reiterated Bonn's position that the Polish-German boundary could only be negotiated by an all-German government. In private Western discussions, Bonn had previously indicated that the Oder-Neisse boundary might be accepted as part of an effort to normalize relations with Warsaw, but only as a last-stage negotiating position. West German officials had also introduced a phased unification plan which postponed free elections until the final stage.

Brentano's renewed emphasis on free elections may reflect the government's concern over the increasingly bitter political campaign of the opposition Social Democratic party (SPD). The SPD's unification and European security proposal is being supported by a vigorous propaganda effort along the lines of its 1958 campaign against atomic weapons. Some SPD officials are already disenchanted with the party's program, but feel that there is no retreating from it.

Brentano's remarks on the Oder-Neisse border are an obvious effort to offset De Gaulle's 25 March press conference statement favoring German unification within the "present boundaries." This apparent acceptance of the Oder-Neisse line was sharply attacked by all political parties as a "rotten Easter egg from Paris," and the opposition has demanded clarification of the government's position and whether or not De Gaulle's remarks were made with Adenauer's approval.

Bonn's renewed emphasis on its traditional policies--unification beginning with free elections and a return to the borders of 1937--coincides with the gradual shift in German opinion in favor of an isolated Berlin settlement, probably involving some de facto recognition of the East German Government. The majority opinion, according to American observers, now favors some contractual arrangement with Moscow and East Germany regulating access and guaranteeing the status quo in Berlin, rather than the risk of broad negotiations involving concessions on unification and European security.

West Berlin

Deputy Mayor Amrehn told American officials that the Berlin government was gravely concerned over what it feels is the developing intention in the West to save Berlin at the expense of an all-German settlement, thus creating "three Germanys."

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Economic indicators available during the past two weeks show a substantial upturn following the January slump. Berlin business circles now feel that although new orders had been declining,

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the situation now has taken a more favorable turn. Industrial production indices for February show a strong rebound from January, except for ma-

chinery production. Berlin stock market prices have risen, with some shares gaining 5 to 8 points. [redacted]

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MIDDLE EAST DEVELOPMENTSSituation in Baghdad

The situation in Iraq continues to develop favorably for the expansion of Communist influence. The American Embassy in Baghdad has concluded that the Communists have achieved such dominance in the propaganda field and are penetrating the bureaucracy and army to such an extent that Prime Minister Qasim might not be able to turn against them successfully even if he wished to do so. The embassy believes it is the "year of the bear" in Iraq, and the atmosphere in Baghdad, it says, is reminiscent of that in the European satellites.

Qasim last week forecast that another "big new revolution" in Iraq would occur this month. Qasim's previous "revolutions" have turned out to be major policy announcements, such as the withdrawal from the Baghdad Pact and the announcement of Soviet economic aid. The new "revolution" is the subject of widespread speculation--it may turn out to be a constitutional change or a shift in large-scale development plans, or even some move to nationalize the oil industry.

A regime spokesman this week said political parties would "soon" be permitted to function, although he qualified the statement by saying that "of course" those which sought to use arms to enforce their views would not be permitted.

This presumably excludes the pro-UAR "nationalist" groups, like the Baath, which have been accused of sympathizing with the Mosul revolt.

Executions Resumed

The first official executions since the July revolution also occurred in Baghdad last week, when four air force officers who had participated in the Mosul revolt were shot. Two senior officers under arrest for plotting--although they did not join the revolt--are reported to have attempted suicide. Baghdad radio has been broadcasting lookout notices for other suspects, including a chief of the Shammar tribe.

British Withdrawal

London, meanwhile, has agreed to withdraw the remaining 300-odd British military personnel from the Habbaniya air base. The British have not decided whether to accept Qasim's offer to retain limited staging rights at the base or to seek full facilities elsewhere. Cairo has already sought to portray this as an indication of British "imperialist" support for Qasim. The final withdrawal from Habbaniya involves a large quantity of equipment and may take as long as four months.

Arab League Meeting

The UAR-Iraq dispute was to be the main item on the

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agenda of the Arab League foreign ministers' meeting held in Beirut on 2 April. None of the participants appears to have believed that much good could come of the meeting, which resulted from the desire of the Sudanese and others to make some gesture toward restoring Arab unity.

Diplomatic Efforts

Communist bloc diplomats for their part are continuing efforts to smooth over bloc differences with Nasir and tone down the UAR-Iraq dispute. The Chinese Communist ambassador in Cairo is said to have made representations along this line, and Peiping's vice foreign minister may have made a similar approach during his recent visit to Egypt. Peiping has taken much the same propaganda position toward Nasir as has Moscow, although its press attacks have been less frequent and no Chinese leader has publicly criticized the UAR.

that he received no effective support from the USSR during the Suez crisis. A Pravda article on 30 March contrasted the "rapid improvement" in the Iraqi living standard with "internal difficulties" in the UAR. Pravda criticized "some leaders in the Near East" for attempting to use Arab nationalism as a means of uniting "all Arab states with one of them, irrespective of whether they wish it or not."

UAR Communists Act

In addition to propaganda ripostes from Moscow, there is some evidence of local Egyptian Communist efforts to campaign against Nasir. Antiregime slogans are appearing on walls in Cairo, Communist anti-Nasir tracts are again reported circulating, and demonstrations led by Communist-infiltrated labor elements on 26 March resulted in some property damage; the police finally had to intervene. More Communists have been arrested in Egypt.

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25X1Nasir Responds

Nevertheless, Nasir on 30 March broke a week-long silence and again strongly criticized the USSR for its interference in Arab affairs. The Soviet press and radio have in the past been unwilling to let Nasir's public charges go unanswered.

Bloc Propaganda

Soviet propaganda media, while continuing to describe the UAR-Iraqi dispute as harmful to both peoples, earlier refuted at length Nasir's charges

Israeli Reserve Call-up

The Israeli radiobroadcast on 1 April calling up reserves for three units created nervousness and apprehension not only in the UAR, which ordered the reserves of the First (Syrian) Army called up on 2 April, but inside Israel as well. The official Israeli explanation has been that the call-up was for routine training. However, the procedure used was new, and the phrasing of the first Israeli announcement suggested the possibility that "all" reserves, rather than a limited number, were being mobilized.

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Opposition political groups in Israel will probably seek to make capital out of the government's "mistake" in making the call-up in this way, and the move was quickly criticized by a Progressive party member of the Mapai-dominated cabinet as merely another instance of Prime Minister Ben-Gurion's failure to consult his colleagues. The

actual motives behind the move-- if indeed it does go beyond training--remain unclear, but it is possible that the Israeli wished by this device to call attention to their security situation in the midst of potentially disturbing developments in UAR-Iraqi relations, in Jordan, or elsewhere on their borders.

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TIBETAN REVOLT STRAINS SINO-INDIAN RELATIONS

The Tibetan revolt has put new strains on Sino-Indian relations and is damaging Peiping's prestige among the Afro-Asian countries, where Communist China and India are competing for influence. Peiping is well aware that the official Indian statements on the revolt and Nehru's willingness to permit extensive reporting by foreign press services have contributed directly to the damage to its reputation. While Prime Minister Nehru has adhered officially to his general policy of non-interference, he has publicly expressed sympathy for the Tibetan rebels.

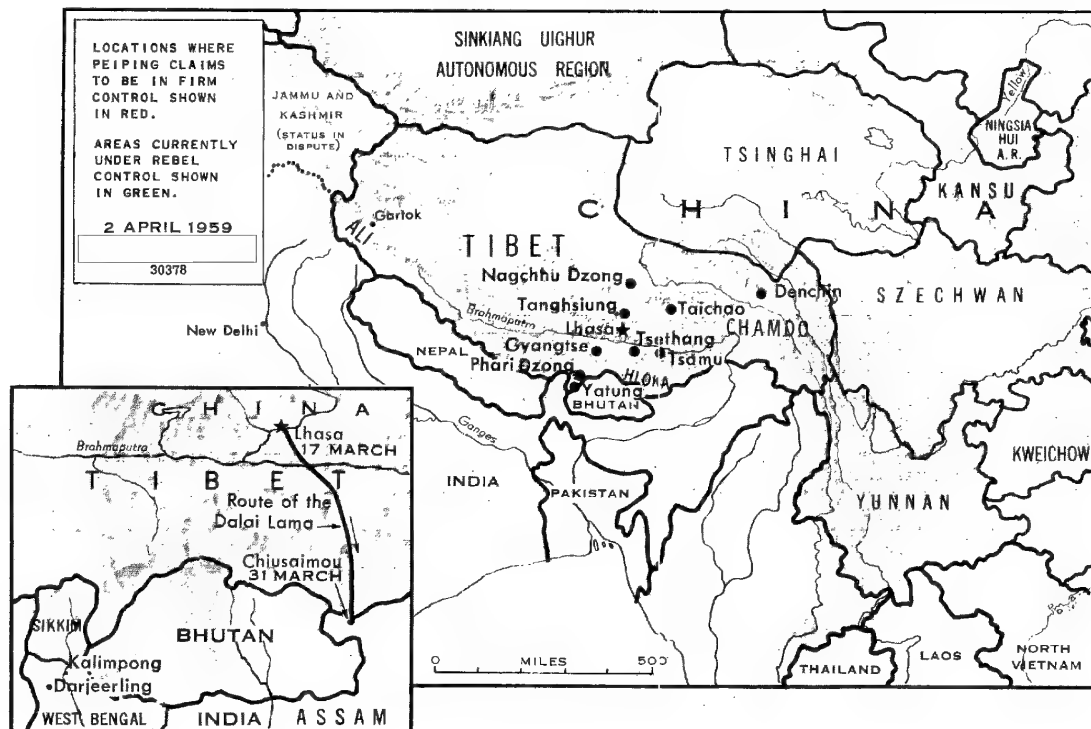
Peiping's strong irritation and its intention to keep the Indians on the defensive were conveyed in the first official Chinese communiqué on 28 March. The commentary stated that Kalimpong in the Indian state of West Bengal was the "central headquarters" for the revolt, thereby suggesting Indian connivance. The commen-

tary also implied further discussion of Tibet in the Indian Parliament would be "impolite and improper."

Should Nehru make representations on behalf of the Tibetans, the Chinese will probably reply that Tibet is considered "autonomous" and emphasize that the matter is considered "internal." But the Chinese, however strong their public and private reaction to Indian "interference," do not wish a serious rift in relations with the Asian power which had previously supported them on certain international issues. That Peiping now seems to be treating Indian sensitivities with more regard is suggested in the 31 March editorial in People's Daily which, although it contains the Kalimpong charge, avoids mention of what the Indian Parliament may or may not discuss.

Peiping's handling of the Tibetan developments has caused

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considerable irritation in Indian official quarters, thus making it increasingly difficult for New Delhi to maintain its conciliatory position. Moreover, public pressure on the government to take a less equivocal stand against Chinese repression in Tibet has sharply intensified following Peiping's charges against India. Various opposition groups have added to the agitation in the press by staging anti-Chinese demonstrations in several Indian cities.

Nehru in his statement before a tense Parliament on 30 March sharply rejected Peiping's complaints, commenting that his government would not "submit to any kind of dicta-

tion from any country, however great or big it may be." His statement was balanced, however, with a plea for restraint and a reaffirmation of friendship for China. Peiping's repetition of charges that Kalimpong is a rebel base provoked further uproars in Parliament on 1 and 2 April, causing Nehru and his deputy external affairs minister to criticize Peiping for making improper allegations.

The Indian prime minister reluctantly agreed to meet a large delegation of Tibetan leaders led by a former prime minister of Tibet. Nehru publicly expressed his sympathy, but pointed out that India was not in a position to intervene and counseled patience.

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The Dalai Lama, who fled southward from Lhasa on 17 March, arrived in India on the 31st. Peiping, still claiming he is held under "duress" by the rebels, probably will demand his return. New Delhi probably will try to ease the diplomatic problem posed by the Dalai Lama's presence by restricting--at least overtly--Tibetan activities to non-political affairs. The Indians may also withhold permission for the Tibetans to establish a government-in-exile.

Reaction Elsewhere in Asia

The Tibetan revolt has embarrassed the Chinese Nationalists, who are pledged to aid any large-scale uprising on the China mainland but have no capability to give effective support to the Tibetans. The Nationalists may, however, attempt to develop a capability for token support by means of air drops staged through northern Burma and for smuggling small arms through India. President Chiang Kai-shek probably has gone as far as he can toward encouraging the Tibetans by promising them future "self-determination" if the Nationalists recover the mainland.

The strongest Asian reaction outside India has come from Malaya, where the foreign minister officially condemned the Chinese use of force in Tibet and likened it to Soviet repression in Hungary. Similar protests have been voiced by sections of the press in Indonesia, Burma, Pakistan, the Philippines, Japan, and the United Arab Republic.

Situation Inside Tibet

Peiping admits that rebel forces numbering "only about

20,000" continue to occupy parts of southern Tibet and other "very remote places" in Tibet and western China. The actual strength of the rebels probably exceeds Peiping's estimate, but except for the Khamba tribesmen these forces appear scattered and largely undirected.

No serious unrest has been reported since Chinese Communist forces drove the Tibetan rebels out of Lhasa on 22 March after two days of intense fighting.



PANCHEN LAMA

The battle for Lhasa resulted in considerable damage to monasteries, the Dalai Lama's palace and summer home, public buildings, and power lines. Peiping claims that 4,000 rebels were taken prisoner during the fighting and that large amounts of arms and ammunition were captured. The Chinese say that order is rapidly being restored in Lhasa.

Peiping's recent statements indicate that the regime has abandoned its cautious policy in Tibet in favor of force to assimilate the Tibetans. Premier Chou En-lai's 28 March order enjoins the Chinese and

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armed forces in Tibet to "thoroughly stamp out" the rebellion and in affect places Tibet under martial law. Although the regime has dealt sternly with outbreaks of unrest in the past, it has never before attempted all-out suppression. Such an effort will be long and costly for the Chinese, since it is likely that small guerrilla bands will continue to operate successfully for some time in the rough terrain of Tibet and western China.

The Chinese Communist decree of 28 March dissolves the local Tibetan government and replaces it with the Communist-sponsored Preparatory Committee for the Tibet Autonomous Region which was set up in April 1956 but never accepted by the Tibetans. It reverses Peiping's policy since 1951 which has been to move slowly in Tibet, delaying reforms, and working as much as possible through local institutions while attempting to undermine their authority and gradually replace them with Chinese Communist organizations. Chinese statements now indicate that Tibet will "carry out reform early and take the socialist road."

The 28 March order names Peiping's puppet, the Panchen Lama, acting chairman of the preparatory committee in place of the Dalai Lama "during the

time" the latter is "held by the rebels." The Chinese have been grooming the Panchen Lama for just such a role in the event the Dalai Lama refused to cooperate with them. By having the Panchen Lama act for the Dalai Lama on an ostensibly temporary basis, the Chinese are evidently hoping to make him more acceptable to the Tibetans. It seems likely that the Communists will continue to use the Panchen Lama for the time being but will increase their efforts to destroy Lamaism in Tibet.

The Dalai Lama is spiritual head of the Lamaistic branch of Buddhism and receives allegiance from Nepal, Bhutan, parts of northern India, northwest China, and Mongolia. Non-Lamaistic Buddhists in Burma, India, Ceylong, Thailand, and Japan will be stirred by the fate of their co-religionists in Tibet.

The Communists, apparently anxious to keep the door open for future use of the Dalai Lama as a puppet, are claiming that his attitude continues to favor Peiping against Tibetan "reactionaries." On 29 March, Peiping radio broadcast the text of letters allegedly exchanged between the Dalai Lama and the Chinese political commissar in Tibet supporting this theme and attempting to document Chinese restraint in the face of rebel "provocations."

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MAJOR SHAKE-UP IN MONGOLIAN COMMUNIST PARTY

At a central committee plenum on 30 March, four of the nine members of the Mongolian People's Revolutionary (Communist) party politburo, including former party First Secretary D. Damba, were removed from their posts on charges of misconduct. The shake-up, which has also had repercussions in the cabinet structure, appears to be a victory for Premier Tsedenbal in his dispute with Damba. The rivalry between the two dates back at least to 1954, when Tsedenbal relinquished the top party position to Damba in a show of "collective leadership." Last November Tsedenbal replaced Damba, who was demoted to second secretary.

The number of individuals involved in the purge, which included two candidate members of the politburo and the chairman of the party control commission, suggests that Tsedenbal's leadership has been under sharp attack and may even indicate an attempted coup on the part of the defeated faction.

The central committee communiqué announcing the changes

accused Damba of "profound ideological and political backwardness, conservatism, personal conceit, lack of principles, insincerity, distortion of party policies," and other offenses. The emphasis in the communiqué on "political backwardness"

**TSEDENBAL**

suggests that the politburo may have been split on policy, perhaps over the recent drive for rapid collectivization of livestock herders--a program which the Communist regime had hesitated to push since the failure of a similar campaign in 1931.

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Tsedenbal has placed his strongest supporter, L. Tsende, in the secretariat post vacated by Damba, and promoted the head of the party research institute, Tumir-Ochir, to full politburo membership. Tsende has resigned as first deputy premier and as chairman of the State Planning Commission in order to devote full time to party affairs. Recent reports have spoken of a "Tsedenbal-Tsende" team, which now seems to be emerging. First Deputy Premier Surenbaj, expelled after 12 years of service on the politburo, has also lost his position as chairman of the Mongolian legislature.

In announcing the plenum's decision to reduce the size of the politburo from nine to seven full members and from five to two alternates, Tsedenbal is

probably hoping to create a body which is easier to control. The move may also indicate a lack of competent top-level leaders in the party as a result of the present purge.

Tsedenbal, a doctrinaire and strongly pro-Soviet Communist, has been opposed by more nationalistic party circles in Mongolia. His marriage to a Russian national reportedly has caused considerable grumbling, but he now has consolidated his position as top leader. To date there has been no question of a pro-Chinese Communist bias within the top leadership of the Mongolian party, and it appears that the recent changes in Moscow's oldest satellite will reinforce its continued pro-Soviet orientation.

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USSR ATTEMPTING TO PURCHASE EMBARGOED COMMUNICATIONS CABLE

The USSR is seeking to purchase from six countries outside the bloc a large amount of shielded multiple-conductor cable for delivery between May and August 1959. This type of cable, which is on the COCOM embargo list, is said by Moscow to be needed on the Trans-Siberian Railway between Moscow and Vladivostok to overcome interference to existing landline communications resulting from electrification of the railroad. A little over one third of the railway is already electrified.

The specified capacity of the cable far exceeds the needs of all Trans-Siberian Railroad operations and would probably

be used for civil and military communications as well. This would greatly improve existing communications facilities between the Urals and the Pacific, which are inadequate and lack security. The entire bloc is generally short of multiconductor cable, however, and the USSR may actually plan to use the cable elsewhere.

The USSR requested bids for a total of some 3,725 miles of cable from Belgium, France, Italy, Japan, Britain, and West Germany. It may be, however, that the actual amount of cable the USSR intends to buy is considerably less, since tenders are not firm contracts. France

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decided in late February to sell and contended at a COCOM meeting in Paris on 23 March that the cable is not covered under the embargo list on the grounds that it is merely railroad-signaling equipment. The other countries involved feel they must either get France to reverse its position or else permit their own companies to sell.

The request is for 61-wire cable, which could carry over

3,000 telegraph circuits of 60 words per minute, or over 200 two-way telephone conversations, or various combinations of the two. This is over 30 times the capacity of cables used for American railway communications. The cable would be suitable for use in Soviet air-defense systems, such as a digital data-transmission system, and for use with a railway-based mobile missile system. 25X1

(Prepared by ORR; concurred in by OSI)

NEW SOVIET LABOR BRIGADE MOVEMENT FACES DIFFICULTIES

Recent criticism by a secretary of the all-union Komsomol gives the impression that the labor brigade movement, only recently launched, encountered difficulties almost from its outset. The movement, said to have originated among young workers in a Moscow factory, was given strong official backing in November 1958 and quickly promoted throughout the USSR.

Basically it entails all the workers in a given shop or work unit collectively taking a pledge to "work and live in a Communist manner" and competing with other brigades for the title of "Communist Labor Brigade." Designed primarily to spur maximum productivity for fulfillment of the Seven-Year Plan, the movement differs from its predecessor, "socialist competition," in that it stresses exemplary personal behavior and a "socialist outlook" as well as labor productivity.

The brigades have been referred to as "cells of the future Communist society" and every effort has been made to give the movement idealistic appeal by presenting it as a link with the coming Communist utopia.

The criticism appearing in Komsomolskaya Pravda indicates that the spontaneity and lofty ideals which were supposed to give the movement its momentum have quickly been subverted by a formalistic approach and an obsession for overfulfillment. The author complains that in some cases Komsomol committees juggle the members of shops or work units and thus artificially create "show" brigades. In other instances "privileged conditions" are created for the competing brigades. The title of "Communist Brigade" is frequently awarded almost automatically to certain groups of workers whether they have lived up to their lofty pledges or not. 25X1

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EAST GERMANY PLANS LABOR SPEED-UP

Under the pressure of an accelerated economic program, the East German regime is once again taking cautious steps to raise the work norms of industrial laborers. Wage increases recently granted to miners and employees of the chemical, food, and paper industries are being accompanied by a reclassification of industrial jobs requiring higher qualifications and increased performance.

The introduction of the Seifert method--a form of industrial speed-up--into a number of plants such as the Electro-chemical Combine in Bitterfeld is regarded by the workers as a means of increasing output to demonstrate the feasibility of an increase in norms. This method is used to promote "socialist competition" and to fix wages pegged to work norms. The workers realize this and, according to the East German press, "...the Seifert method is meeting great difficulty at the Maxhuetten foundry and has de-

veloped very slowly at the Wema plant."

Moves to increase work norms were defeated by the worker revolts of June 1953 and by the outspoken hostility of the workers in mid-1958. The East German workers are particularly sensitive to this type of exploitation.

Party First Secretary Ulbricht retreated in a public speech in July when he called for an increase in labor productivity by use of the brigade system, a method which relies most heavily on the party faithful among the workers, as an interim means of increasing labor productivity. His cautious tactics are a recognition of the fact that he is steering a difficult course between the needs for increased productivity imposed by his regime's ambitious economic goals and the resentment of East German workers.

(Prepared by ORR)

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NORTH AFRICA

The Algerian rebels, working in concert with the Tunisian and Moroccan governments, hope to exact a compromise from French President de Gaulle for a settlement of the Algerian rebellion. At Tunisian President Bourguiba's initiative, the North Africans may propose that an independent Maghrebian federation, including Algeria, associate with the French Community, guarantee the rights of the French minority, and adopt a favorable attitude toward foreign military bases. At the same time, the Algerians are continuing their efforts to es-

tablish discreet contacts directly with the French.

While De Gaulle in turn has been reported still seeking contacts with the rebels, he has not moved appreciably from his public offer made last fall for a safe-conduct to rebel leaders to come to Paris to arrange a cease-fire. Meanwhile, the French press is playing up the defection of a minor rebel leader and the reported death in ambush of two commanders of the Algerian Army of Liberation in an effort to prove that the back of the rebellion is broken.

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Should the diplomatic gambit fail, Tunisia and Morocco may be prepared to insist on the early and complete evacuation of all foreign troops. The Algerians apparently hope Morocco can persuade the United States--by holding out the prospect of an agreement on the five American air bases--to use its influence on behalf of the Algerians for a settlement with Paris.

Despite their preference for a compromise settlement with France and close ties with the West, the Algerians are pursuing their contacts with the Sino-Soviet bloc. An Algerian mili-

tary group is in Peiping

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Rebel Premier

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Abbas is visiting Asian and Middle Eastern capitals.

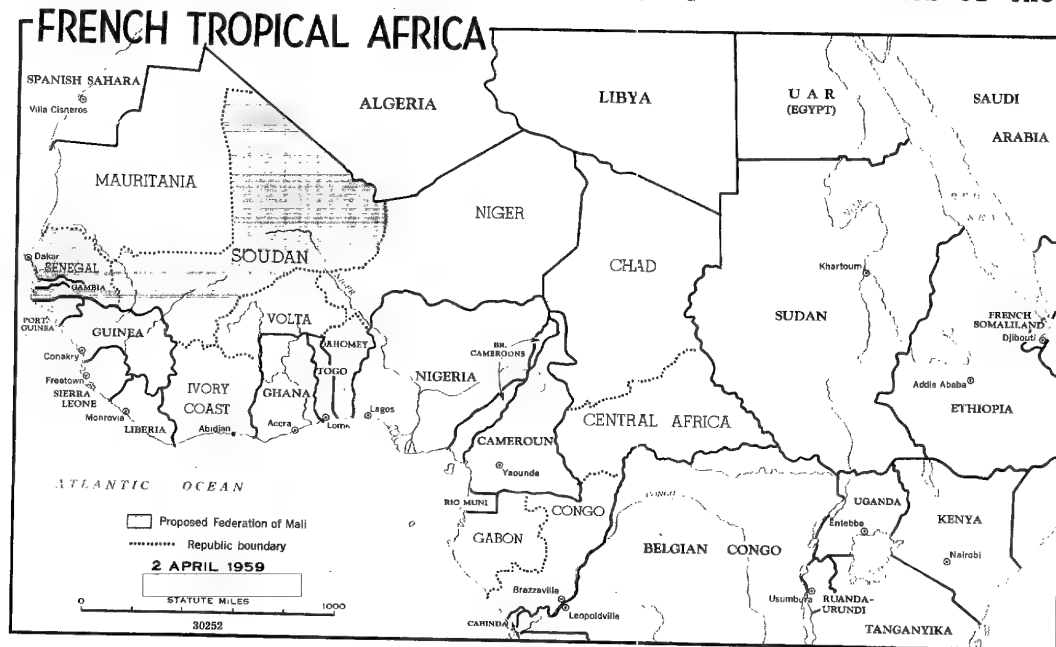
Tunisia is seeking American military equipment to modernize and strengthen its armed forces. It is prompted in this effort in part by fear of French incursion into its territory if no agreement is reached with Paris, as well as by the potential threat to its internal stability of a more powerful bloc-supported Algerian rebel army.

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UNREST IN FRENCH TROPICAL AFRICA

Political tension will probably increase and may become critical within the next few months in several of the autonomous republics of the former federations of French West and Equatorial Africa.

Pro-federation leaders from five of the seven West African republics met in Dakar on 24 March and formed the African Federal party to support the Mali Federation--a proposed new grouping of territories of the



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former federation of French West Africa. They elected Leopold Senghor, political boss of Senegal, president. The party leaders, who consider the Mali Federation a first stage in creating a federal republic of West Africa, reportedly envisage independence from France as a long-range goal.

Formation of this party may end some of the political confusion arising from the splits within the two leading regional parties on the federation issue. However, active agitation may result in considerable tension and bloodshed when entrenched pro-French native leaders like Houphouet-Boigny in the Ivory Coast react to this new challenge.

The federalists have decided to proceed with the Mali Federation, which Paris views unsympathetically and which is supported only by Senegal and Soudan, following the defection of the Voltaic Republic and Dahomey. It will be formed on 4 April and will seek to

join the French Community as a single entity.

In three of the four autonomous republics of former French Equatorial Africa--Congo, Chad, and Central Africa--political tension may soon become critical because of their basic instability and lack of readiness for self-government.

In the Congo, political opposition to Fulbert Youlou degenerated to savage tribal warfare in February; the situation remains tense in anticipation of a referendum and new elections.

In the Chad, four governments have held power since October; because of the republic's socio-racial make-up--Arabic north and Negroid south--instability is likely to increase.

The Central African Republic, which had been politically stable under the leadership of federalist Barthélemy Boganda, may face a political crisis following his death in a plane accident on 30 March.

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THAILAND PRESSING FOR SOLUTION TO VIETNAMESE REFUGEE PROBLEM

Thailand, apparently abandoning as infeasible plans to relocate some 50,000 Vietnamese refugees residing in the north-eastern frontier provinces, is redoubling efforts to arrange for their mass repatriation. The Sarit government has sent a new note to South Vietnam asking its reasons for refusing to accept the 10,000 refugees the Thais estimate would choose to go there. The note pointed in contrast to Communist North Vietnam's long-standing "agreement in principle" to accept those refugees, estimated to number at least 40,000, who would opt for the north if forced to leave Thailand.

Bangkok has also formally called the refugee problem to the attention of its SEATO partners, asking them at least to be prepared to help with funds and transportation if Thailand can arrange for repatriation.

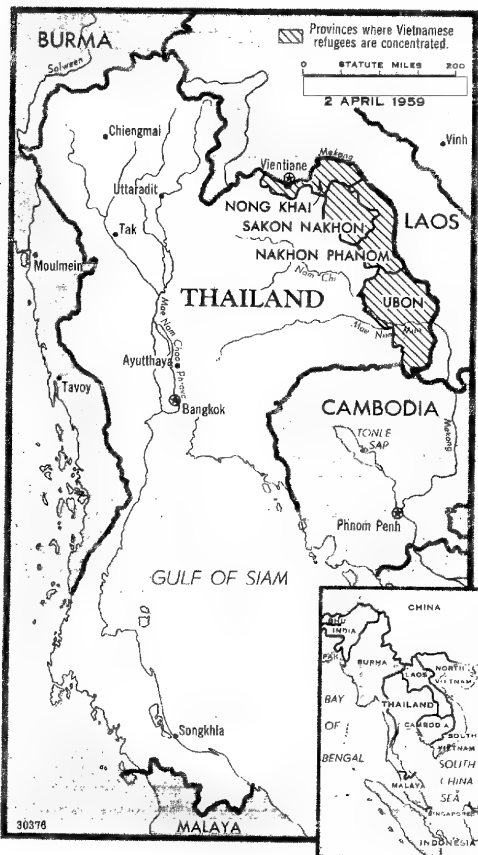
The ideal solution in Thai eyes would be the mass transfer of refugees to South Vietnam. However, Saigon has consistently refused to take more than a token number of carefully screened families, and is unwilling to become party to forced repatriation.

The Diem government would clearly prefer that mass

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undermine Saigon's prestige as claimant to the loyalties of the people in both South and North Vietnam.

In recent months, Hanoi has been stepping up its propaganda in support of the refugees' cause, protesting against the Sarit regime's arrest of some 260 suspected pro-Communist ringleaders and reaffirming its readiness to negotiate on the refugees' return to North Vietnam. Hanoi insists, however, on direct talks between the Thai and North Vietnamese chapters of the Red Cross, a proposal which the Thais have hitherto rejected because Thailand does not recognize North Vietnam.

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deportation of the refugees not be attempted at all. Since Saigon does not want the refugees, it fears their movement to North Vietnam would provide Hanoi with a signal propaganda triumph which might

SINGAPORE ELECTION CAMPAIGN

Chief Minister Lim Yew Hock has so far been unsuccessful in his efforts to obtain cooperation among Singapore's moderate parties for the Legislative Assembly elections now planned for 30 May. The British, who seem reconciled to an election victory by the Communist-infiltrated People's

Action (PAP) party, appear to be giving little if any support to Lim's Singapore People's Alliance (SPA). They apparently desire to avoid any action which might impair their chances of working with PAP's moderate wing led by Secretary General Lee Kuan Yew.

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Last week Lim's government, in an effort to divert attention from the SPA's difficulties and to discredit PAP, took over the administrative functions of the PAP-dominated Singapore city council. The British are fearful that this action, and possibly future provocations against PAP which Lim might plan, could lead to violence by extremist elements, even though PAP is trying to avoid its good election prospects. Disorders, which could be blamed on PAP, would provide

the Singapore Government with the opportunity to proscribe the party or might force the British to postpone the elections.

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ICELANDIC GOVERNMENT LOOKS TO EARLY ELECTIONS

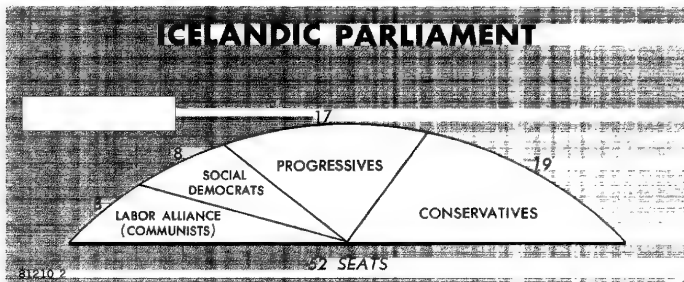
After three months in office, Iceland's minority Social Democratic government has managed to halt the inflation which threatened to set off a new round of price and wage increases. As part of its stabilization program, the government recently secured parliamentary approval of a 5.4-percent roll-back for both prices and wages, but it faces greater difficulty

in putting through the 1959 state budget, which contemplates a lower level of investment in rural areas.

Prime Minister Emil Jons-son's government came to power on 23 December after a dispute over economic stabilization measures had broken up the coalition of Social Democrats, Progressives, and the Communist-

dominated Labor Alliance. It remains dependent on Conservative parliamentary support, which is conditioned on the understanding that the government will introduce legislation to revise the existing electoral law.

The Conservative, Social Democratic, and

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Communist-dominated Labor Alliance parties all desire a re-determination of constituencies in order to correct the existing overrepresentation of rural areas which gives the Progressive party its strength in Parliament. Such a change requires an amendment to the constitution and two separate parliamentary elections. One will probably be in late spring and the other in the summer. The Conservatives, already the largest party, are certain to improve their position, although they seem unlikely to gain a majority even under the parliamentary redistricting. The Social Democrats and the Communists also stand to gain.

The Communists will be aided in the election through continued control of the labor movement and their probable use of the seven-month-old fishing-limits dispute with Britain as the major campaign issue. British vessels have continued to fish within the 12-mile limit, but except for scattered incidents the situation has been quiet, and the present Icelandic Government apparently wants it to remain so. Electoral considerations, however, will prevent the government from favoring any formal agreement that could be attacked as a surrender of Iceland's rights.

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COMMUNISM IN CUBA

Communists in Cuba continue to operate with little restraint and have succeeded in making inroads in the organized labor movement, the armed forces, and probably the press.

The Popular Socialist (Communist) party (PSP), which under Batista had an estimated membership of 8,000 to 15,000, has opened offices in various regions and is conducting fund-raising and recruitment drives. It publishes two editions of its daily newspaper, Hoy, and has sympathizers on the staffs of other papers. It reportedly broadcasts daily over a Havana station.

Even more disturbing is the influence of pro-Communists in high official positions. The Argentine-born rebel leader Ernesto "Che" Guevara, placed in charge of the Cabana fortress in Havana, has permitted Commu-

nist activities within his command. The creation of a new section of the General Staff, known as G-6 or "direction of culture," has provided another opening for Communist penetration in the armed forces. Headed by the pro-Communist brother of the army chief of staff, G-6 is reportedly engaged in re-writing textbooks for military personnel. Raul Castro, commander in chief of the armed forces, has shown extreme anti-US sentiments.

Although Fidel Castro has stated he will not allow Communists to "steal the revolution" from him, the potential for Communist penetration exists, partly because of the Communists' skill at identifying their aspirations with his program. His espousal of a "neutralist" position for Cuba in world affairs and his increasingly anti-American statements, as well as his

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social and economic reform programs, lend themselves to such identification.

Communists are believed to control a few unions and to exert influence in others; aside from a move in January to oust them from labor leadership, the government has made no serious effort to proscribe their activities. In Santiago, a group of citizens found it advisable to disband their anti-Communist civic committee, since anti-Communists are being equated with counterrevolutionaries--who are considered close to being traitors in Cuba today.

Ex-President Figueres of Costa Rica returned from his visit to Cuba last week seriously disturbed over the extent of Communist influence there and fearful that the United States may eventually be faced with a choice of either intervening outright or else accepting Communist domination of the government. In any event, it seems clear that Castro will probably allow the Communists to continue operating freely as long as they do not threaten the dominant position of his "26 of July" movement.

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PERONISTA STRIKE PRESSURE ON THE ARGENTINE GOVERNMENT

The Argentine Government, threatened with a general strike on 3 April, will be under heavy pressure from the Peronistas and Communists during the next few weeks. The Peronistas, in their effort to regain control of organized labor, apparently feel they now have a tactical advantage and are exploiting widespread discontent over the steep price rises since the US-backed austerity plan was begun on 1 January.

While living costs have averaged almost 40 percent higher this year, the prices of the two staples in the Argentine diet, bread and meat, have doubled and tripled. The rise in electricity rates aided the Communists' organization of neighborhood protest committees, which are urging non-payment of taxes as well as light bills. During March, prices leveled off, but demonstrations and bombings--usually harmless--are daily events.

The basically political purpose of the strikes is ap-

parent, as it was in the Peronistas' and Communists' previous major efforts: the petroleum workers' strike which resulted in the government's declaration of a state of siege on 11 November and the mid-January general strike begun on the eve of President Frondizi's departure for the United States. These strikes prompted Frondizi to close the Communists' headquarters and to modify his previous plan of trying to win over the more moderate Peronista labor leaders. He had also noted that the "hard-line" pro-Peron leaders won a number of the union elections held last year.

Peronista labor leaders include in their "minimum demands" the immediate completion of union elections, release of all jailed labor leaders, an end to the state of siege and to mobilization of various workers, and the return of union control to "duly elected leaders." These leaders do not appear immediately capable of starting a "civil war" as they threaten, but they can promote costly strikes by

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exploiting public anger over price rises.

The anti-Peronista "32-Group" unions, nominally as strong as the Peronista unions, have thus far condemned the Peronista initiatives as politically inspired. It is not

clear, however, how long they can resist their unions' pressure for token wage protests.

The military not only supports but insists on firm control of labor agitation, but-- as Frondizi has publicly admitted--his popularity is at a low ebb.

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ITALIAN LABOR ELECTIONS SHOW PRO-COMMUNIST TREND

The Communist-dominated Italian General Labor Confederation (CGIL) in recent months has gained support in a number of shop steward elections throughout the country, reversing the trend of the last few years. With the rate of economic growth lagging and industry trying to cut production costs, the CGIL is in a good position to expand Communist influence in Italy.

Since about 1955, the Christian Democratic - oriented Italian Confederation of Free Trade Unions (CISL) and the Democratic Socialist Italian Labor Union had been cutting into CGIL strength in the balloting for workers' representatives. In the past few months, however, the CGIL has registered gains at the expense of the free unions in the Ansaldo shipyards in Genoa, the Michelin (tires) and RIV (ball-bearing) plants in Turin, and the engineering sector of the huge government-controlled IRI complex. At the Ravenna rubber plant of the state hydrocarbons agency ENI, the CGIL last month ran for the first time and won 45 percent of the votes, cutting the CISL from 68 to 35 percent.

This upsurge of CGIL strength results primarily from its exploitation of the workers' main grievance--layoffs carried out or threatened in order to cut production costs and put Italian industry on a more competitive level as European economic integration takes effect. In its campaign to publicize both dismissals and civil servants' pay demands, the CGIL has sponsored a number of protest strikes which the free unions have felt obliged to join. Although these strikes have been on the whole unsuccessful, they have tended to persuade many workers that the CGIL is their only real champion.

CGIL prospects for further gains appear good, particularly if the rate of economic growth continues to lag and progress in closing the gap in average income in the north and south remains slow. Unemployment--still almost one tenth of the total labor force--would become an even more serious issue if business interests induced the government to accelerate the closing of unproductive plants that heretofore survived only by government assistance.

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PART III**PATTERNS AND PERSPECTIVES****COMMUNIST CHINA SET FOR ANOTHER "GIANT LEAP"**

The stimulus provided last year by the programs associated with the "giant leap forward" in Communist China produced the most rapid annual rate of economic growth yet achieved by Peiping. This year the regime will concentrate on "four great targets"--18,000,000 tons of steel, 380,000,000 tons of coal, 525,000,000 tons of food grains, and 5,000,000 tons of cotton.

The "leap forward" in economic development last year probably grew out of the regime's dissatisfaction--already evident in late 1957--with the rate of growth achieved during the First Five-Year Plan (1953-57). The regime, believing that heavy concentration on large-scale, modern industry failed to make optimum use of China's resources, especially its huge reservoir of underemployed manpower, departed sharply from its previous complete reliance on the Soviet model.

In the giant leap, a series of programs designed to bring this manpower into fuller use was launched. These took the form of immense corvées in water conservancy and other agricultural projects and the establishment of large numbers of small- and medium-size industrial enterprises.

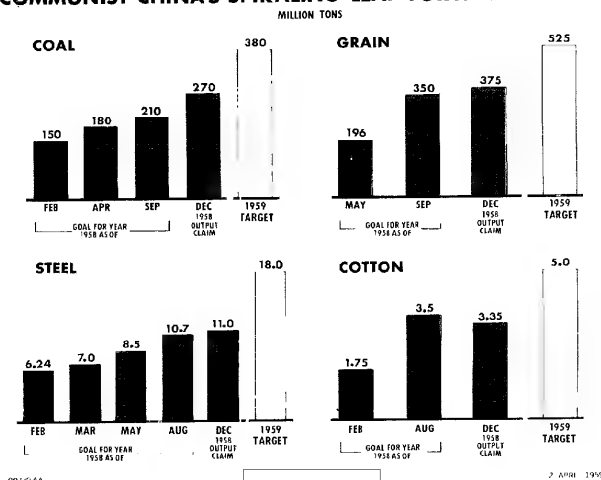
Since labor was the chief ingredient of the leap, it was necessary for the regime to whip up popular fervor. All weapons in Peiping's armory of mass persuasion were brought to bear, and the response was a testimonial to the hold

the party has over the people's minds and lives. China's labor surplus was not only absorbed, but a manpower shortage developed. As the year wore on, the program gathered steam and the official plan for 1958, which had been set before the public in February, was all but abandoned. Production targets set under the impetus of the leap spiraled higher and higher.

The Leap in 1958

Peiping claims that the 1958 leap was a resounding success. Published figures maintain that China doubled its production of steel, coal, machine tools, grain, and cotton--an achievement without precedent.

The stimulus provided by the leap produced the most rapid annual rate of economic growth yet achieved by the Chinese Communists. Production rose to record heights in both industry and agriculture, and efforts to improve techniques and diversify the economy met with considerable success. It

COMMUNIST CHINA'S SPIRALING 'LEAP-FORWARD' TARGETS**CONFIDENTIAL**

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is likely that the physical volume of industrial output was very close to its alleged level, but that agricultural output probably fell far short of Peiping's claims.

The regime's statistical services, which until last year had been reasonably accurate in most respects, probably deteriorated

EXAMPLE OF CHINESE COMMUNIST "LEAP FORWARD" PLANNING

Target: To raise the annual capacity of the No. 1 Automobile Plant in Changchun from 30,000 trucks and cars to 150,000.

<u>FORMER BUDGET</u>		<u>"LEAP FORWARD" BUDGET</u>
\$122,000,000 from government budget	COST.....	\$15,850,000 absorbed by plant, at no cost to government
3,700 pieces of machinery	EQUIPMENT TO BE ADDED.....	800 pieces of machinery
358,800 square yards	FLOOR SPACE TO BE ADDED.....	167,640 square yards
Ten years	TIME.....	One year

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rated under the tremendous pressures to meet the spiraling targets. Peiping insisted that its statistical service play a political role in "stimulating" the leap, a euphemism for encouraging production by exaggerating claims of success. In addition, the slapdash nature of some of the leap's campaigns and the sweeping administrative changes introduced during the year, notably the communes, led to the use of new and untested statistical practices as well as of numbers of inexperienced personnel. Reporting, for example, from the thousands of primitive iron and steel facilities could not have been very accurate.

The Soviet Union apparently has found the extravagance of the Chinese claims embarrassing--taken at face value they mean that the Chinese have outstripped the USSR in rate of growth--and they are seldom aired in the Soviet press. There were signs late last year that Peiping was concerned about statistical "exaggeration" and "concealment of shortcomings."

One writer complained that exaggeration "adds a false tint to the fruits of the people's labor and taints the original hue so they cannot tell the genuine from the false."

Strains in the Economy

Peiping has admitted that there were "defects" in the 1958 leap, "the time being short, the task urgent, and experience inadequate." Shortages of raw materials began to be felt early, as users committed to high levels of output competed for them. The attendant problems were accentuated because the transportation system was not equal to the demands put on it. Especially in the second half of the year, congestion was pronounced on the nation's railroads, in its ports, and along its waterways. Individual plants had to cut back or suspend operations because of a lack of raw materials.

The pursuit of certain programs led inevitably to the neglect of others. Heavy emphasis on the fall iron-and-steel drive and the headlong formation of communes for a time "squeezed out" other things such as the production and distribution of secondary farm products. The result was an embarrassing shortage of meat, poultry, fish, eggs, vegetables, and the like in the cities. The regime's farm procurement programs, geared to unrealistic output figures, have been in trouble, and there have been reports of food shortages in rural areas as well. There was "unevenness" in the iron and steel industry. More pig iron was made than could be turned into steel, and more steel than could be rolled into usable shapes.

The labor force, in addition to being taken from its

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normal and necessary pursuits, was badly overworked. For example, the iron and steel drive occupied some 25 percent of the rural labor force at the height of the fall harvest season. Crops stood unharvested or were harvested hastily and poorly.

There were complaints near the end of 1958 that China was failing to meet its export commitments on time or in sufficient quantity. These failures reflected transportation and distribution difficulties as well as a rapidly growing domestic demand for items such as cement, iron ore, and industrial chemicals--items China formerly exported without strain.

Certain agricultural programs were given heavy publicity during last year's leap--more irrigation, deep plowing, close planting, and heavy manuring. There is merit in some of them, but it is likely they were pushed too far and too fast, being adopted for fairly wide use before adequate consideration was given to the physical and engineering problems involved.

In any irrigation system, for example, there are considerable problems in allocating water, and with silting and drainage; plowing below a depth of one foot in some soils is useless and sometimes harmful; the nutrient content of the immense amounts of pond mud and manure used is low. Increased seeding rates without large increases in fertilizer and water may actually reduce yields.

While marked progress was made last year in the regime's continuing efforts to diversify the rural economy, there were still "weak spots." Peiping identifies some of them as

oil-bearing crops, other industrial crops, and secondary items like meat, poultry, eggs, fish, and vegetables.

There also were "weak spots" in industry. Production of electric power, chemicals, petroleum, transportation equipment, and certain raw materials did not keep pace with the rapidly expanding demand. Some of the leap programs were not as noteworthy as was the heavily publicized iron and steel drive. Peiping has been relatively quiet on the results of its efforts in small-scale production of copper--the announced goal at one time was to increase production thirtyfold--aluminum, chemical fertilizer, and synthetic petroleum.

The regime has acknowledged indirectly the impermanence of many of the primitive iron- and steel-making facilities erected during the drive. The process of weeding out the less efficient producers had begun by last October, and Peiping now insists that where materials and fuels are difficult to obtain, operations should be stopped immediately.

The hurry-up programs of the leap often drove one of China's scarcest economic resources--its modern industrial plant--at rates or for purposes beyond that for which it was designed, hastening the depreciation of the equipment. In addition, Peiping's demands that construction projects be speeded up resulted in instances of corner-cutting and shoddy building.

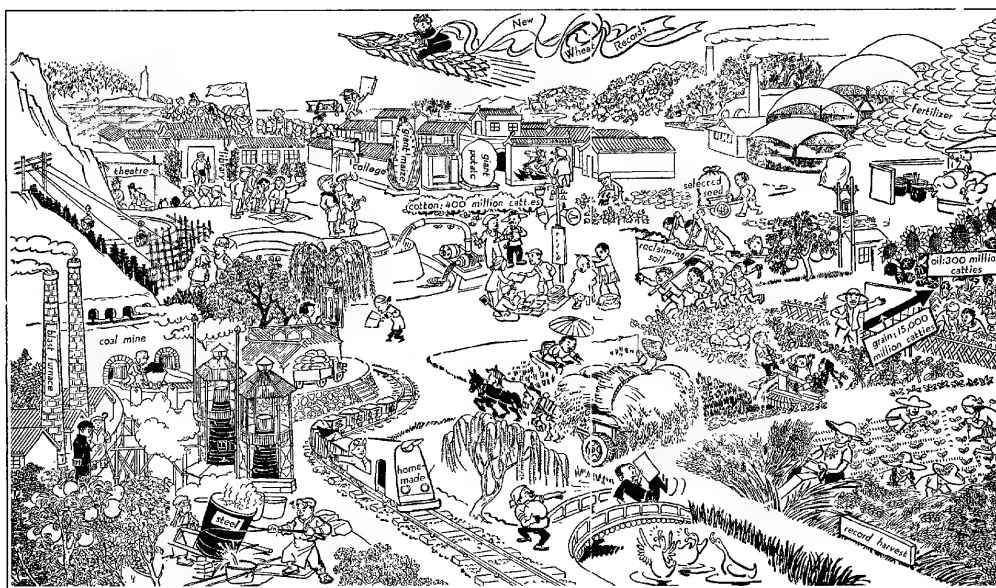
Another Leap for 1959

Despite these nagging problems--which Peiping professes to welcome as tangible evidence of the nation's rapid economic progress--the regime obviously intends to pursue virtually the same economic techniques this year. It argues that the

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Cartoon from Shansi Daily pictures the effect on village life of this year's bumper harvest, advance in rural mechanization, and development of small-scale local industry.

CHINA RECONSTRUCTS, SEPTEMBER 1958

economic gains made last year far outweigh the problems, and that the nation began 1959 in a far stronger position materially than it began 1958, that it had a greatly augmented technical force, and that the party had a vastly "enriched" knowledge of how to promote mass labor campaigns.

The leap this year will, the regime believes, be "bigger and better" than last year's, but it will also be "more balanced." To achieve this better balance, Peiping has ordered a number of adjustments in its leap programs and further adjustments can be expected. It hopes these will result in a more realistic approach—one which pays closer attention to a national plan and the "objective laws of proportionate development." In general the adjustments, striving to avoid last year's shotgun approach, provide for a greater concentration of forces on key production targets and construction projects. Peiping is still in the process of defining these reassessed economic priorities.

Steel is described as the key link in industrialization, and Peiping is directing its efforts to improve the relative position within the steel-making industry of iron ore extraction, coke making, and steel rolling. The machinery industry is to speed up the supply of equipment to these facilities.

Efforts are also being made to step up the production of electric power, chemicals, petroleum, and transportation and communication equipment—items which fell short last year. Large-scale heavy industry will probably have first call on scarce materials. In agriculture, attention is being shifted from mass irrigation, from deep plowing, and from backyard iron and steel activities to subsidiary farm work, fertilizer gathering, and actual field work.

More marked adjustments are being made in the construction field. Peiping says that the construction "battlefront must be shortened" by cutting out projects which are adjudged less important for the moment.

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Money and manpower are to be concentrated on projects near raw materials, fuels, and markets in order to gain the greatest economic results in the shortest time with the smallest investment. This does not mean the program to build small-scale industries is being dropped, however. Chen Yun, a top economic policy-maker now specializing in construction matters, has urged that the "greater proportion" of construction efforts be directed toward medium- and small-scale industries.

Peiping continues to warn against too prodigal a use of intensive labor techniques, and the party central committee has ruled that, in general, farm laborers should work only eight hours a day, with longer hours permitted during "busy seasons." While recognizing that the success of the 1959 leap will depend largely on a tremendous outpouring of labor similar to that in 1958, the regime evidently hopes to increase labor productivity through better tools and equipment and organization, as well as through the effective mass methods used last year.

The Leadership and the Leap

Chinese Communist leaders, from Chairman Mao down, are deeply committed to the success of the leap. No public voice is raised against it. Throughout the leap, however, there have been frequent references to the existence of a persistent group, most likely within the party, which shies away from the hazards involved. This "gloomy clique" was pictured at midyear as feeling that the year's final statistics would bear out its misgivings. Thus alerted, the leaders at year's end fired a salvo of figures at the doubting elements showing how the leap had brought "unprecedented" success.

Apparently, however, these unidentified elements are not

convinced. Tan Chen-lin, the leading propagandist for the leap, said in February there were still calloused doubters who felt that the leap programs were "not reliable" and who asked: "Why is there no flour if there was a bumper wheat crop?" and "Why do we have to eat sweet potatoes if grain output increased so much?" Tan predicted that this year's leap would deal a crushing blow to such persons, adding darkly, "If the ideological problems of these comrades are not solved quickly, damage will be done to this year's leap."

Outlook

Peiping gives no hint that it will drop either its highly suspect 1958 production claims or lower its ambitious 1959 targets. The four great targets for steel, coal, grain, and cotton appear to have been based on the 1958 figures and are, the regime candidly acknowledges, "by no means easy." Their fulfillment will require "heroic efforts."

The central question facing Peiping at present appears to be whether the working people will put out the "heroic efforts" required without roughly commensurate material rewards. There is some evidence that Peiping has reason to be concerned on this score. The current food shortages, substitute rations, and the tight lid the regime is keeping on all consumption is evidently making it difficult to whip up the desired degree of labor "enthusiasm." It is doubtful that the available devices to raise labor productivity will take up all the slack.

The strains and difficulties encountered in the leap to date have prodded the regime to make minor adjustments in its leap programs. If the present course is continued, however, these strains and difficulties are apt to break out in a more virulent form. (Prepared by ORR)

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RECENT PETROLEUM DEVELOPMENTS IN LATIN AMERICA

Latin America's share of the world's production of crude oil fell from 19.3 percent in 1957 to 18 percent in 1958 and will probably continue falling in 1959, although the amount of oil produced in the area may be somewhat higher than in 1958. A production drop of about 175,000 barrels a day (b/d) in 1958 in Venezuela--the world's leading exporter and second-ranking producer after the United States--was only partially offset by gains in Brazil, Mexico, Colombia, and Trinidad. The largest percentage gain in crude production was registered by Brazil, but Argentina may win this position in 1959 as a result of its recent contracts with foreign oil companies for more rapid development of its oil resources.

Major Caribbean Producers

In view of the present world surplus of oil, the outlook for the petroleum industry in Venezuela, which accounted for about 78 percent of Latin American production in 1958, depends in part on the effects of the competition from cheaper Middle Eastern oil and in part on the mandatory oil import control system adopted by the United States in March to replace the "voluntary" program. It is not yet clear how any necessary reductions in oil imports into the United States will be allocated by the large international oil companies between their Venezuelan and their Middle Eastern affiliates, but the immediate Venezuelan political reaction was unusually moderate and reflected official understanding.

Venezuelan production in January 1959 reached a record

level of more than 3,000,000 b/d--about 600,000 barrels more than the combined daily output of Kuwait and Saudi Arabia, the leading Middle Eastern producers. The average throughout the year, however, is likely to be little above 1958's 2,600,000 b/d.

Last December's retroactive increase in the Venezuelan income tax in effect altered the 50-50 profit-sharing arrangements between the government and the foreign oil companies to give the government 60 percent or more. This change, which in part reflects the rising tide of nationalism in Vene-

**LATIN AMERICAN
CRUDE OIL PRODUCTION
1956-1958**

	DAILY AVERAGE (THOUSAND BARRELS)			PRODUCTION CHANGES (IN PERCENT)	
	1956	1957	1958 EST.	1957 OVER 1956	1958 OVER 1957
VENEZUELA	2,456.8	2,779.2	2,604.0	13.1	-6.3
MEXICO	257.1	252.6	274.0	-1.8	8.4
COLOMBIA	119.7	125.3	130.0	4.7	3.7
TRINIDAD	79.0	93.3	104.0	18.1	11.4
ARGENTINA	86.7	92.8	93.6	7.0	.9
PERU	50.2	52.7	51.0	4.8	-3.1
BRAZIL	11.1	27.7	50.0	149.7	80.5
CHILE	9.7	11.9	15.5	22.8	30.4
BOLIVIA	8.7	9.8	9.4	12.2	-4.0
ECUADOR	9.3	8.7	9.0	-5.7	2.9
CUBA	1.5	1.1	.9	-31.4	-1.7
TOTAL LATIN AMERICAN PROD'N	3,089.8	3,455.1	3,341.4	11.8	-3.3
TOTAL WORLD PRODUCTION	16,671.6	17,889.8	18,117.4	7.3	1.3
LATIN AMERICAN PRODUCTION AS PERCENT OF WORLD TOTAL	18.5	19.3	18.0	—	—

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zuela, will probably have repercussions in other oil areas and may reduce the rate of investment in the Venezuelan oil industry, as well as in other segments of the Venezuelan economy.

Mexico, the second largest area producer, averaged 274,000 b/d in 1958, a substantial increase over 1957. The national oil monopoly, Pemex, which by the end of 1958 had almost eliminated the country's need to import refined products, recently obtained about \$75,000,000 in loans from private US and European Common Market sources for pipeline construction and

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development of a petrochemical industry. Pemex had not previously been able to obtain sizable credit from official US sources, and Mexico continues to oppose direct foreign participation in its oil industry.

Both Colombia and Trinidad, the third and fourth largest producers in the area, increased production in 1958, continuing their pattern of annual gains in recent years. In Colombia, where increased petroleum exports could eventually reduce the country's heavy dependence on coffee sales for foreign exchange, the government is considering modifying the oil code to make 40 percent the maximum tax on net company income--a move which would make Colombia more attractive, from a taxation standpoint, for oil investment than Venezuela.

Argentina and Brazil

The most striking modification of official oil policy in 1958 occurred in Argentina, the fifth largest producer in Latin America. Emphasizing that accelerated petroleum development was one of the steps essential to economic and financial recovery, President Frondizi announced last July a policy of making oil development contracts with private firms on a nonconcession basis

and under the direction of the State Oil Fields Administration. To assuage nationalistic sentiment, he has nationalized all petroleum and coal resources not under private concession on 1 May 1958.

Contracts totaling more than \$500,000,000 have already resulted from this policy and others are under consideration. The contracts vary as to type, size, and duration. Some are to provide only services and equipment on credit, while others require private firms to assume a large share of the risk. In addition, the USSR, in an agreement signed on 27 October, has

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offered to supply Argentina \$100,000,000 worth of petroleum equipment--about a third of which reportedly has been ordered.

The government believes that its new petroleum policy will help make Argentina self-sufficient in oil within about three years and may later provide a source of foreign exchange. Petroleum imports cost Argentina about \$271,000,000 in 1957, or about one fifth of its total imports, and have been an important factor in its trade deficits over the past decade. Work under contracts already signed may rapidly increase last year's average production of about 93,600 b/d.

The Brazilian state oil enterprise, Petrobras, which has a legal monopoly on oil exploitation, has more than quadrupled production since 1956. Production equals about 20 percent of domestic demand, as compared with about 3.5 percent in 1955. Brazil's 50,000-b/d production in 1958 was about 80 percent higher than in 1957 and the largest percentage increase in the area. Petrobras' increases have had little impact on the nation's \$250,000,000 annual oil deficit, however, and may have been attained through excessive pumping rates. Since no wells were brought in during the year, Brazilian production may not continue to increase at these rates.

Although the Brazilian public displayed considerable interest in Argentina's development contracts with private foreign companies, no influential elements have proposed similar arrangements for Brazil, and no perceptible change has taken place in nationalistic opposition to foreign participation in the oil industry. Moreover, the interest of foreign

companies in Brazil seems limited because there are no fully proved, sizable reserves except in areas now being exploited by Petrobras.

Any re-examination of Brazil's basic oil policy would have to take into account a number of factors, including possible Argentine success with foreign contracts, Petrobras' demonstrated inability to make inroads on the national oil deficit, and a change in the strong army backing of Petrobras as an exclusive monopoly.

New Concession Areas

In areas where new concessions have been granted to foreign companies during the past five years--especially Paraguay, Bolivia, Ecuador, Guatemala, Costa Rica, and Panama--exploratory and exploitation work conducted thus far has either been discouraging or is in a preliminary stage. In Paraguay, the first two of four exploratory wells planned by the Pure Oil Company on its concession have been dry holes.

Gulf Oil Corporation, which has the largest foreign concession in Bolivia, is pessimistic about its general prospects on its holding after spending some \$2,500,000 in initial exploration and exploitation. Although an increase in Bolivian production and exports would tend to alleviate the economic crisis, partly caused by declining revenues from foreign sales of tin, such an increase in the near future will depend largely on the state oil enterprise, which controls most of the fields with proved reserves. Bolivian production in 1958 dropped slightly, to about 9,400 b/d, but drilling activity in 1959 suggests that production may increase substantially.

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Ecuador, where production during the past three years of increased consumption has remained constant, has become a net importer of petroleum and granted new concessions to US companies in 1958. The controlled, below-cost prices on domestic gasoline sales imposed on certain foreign producers in both Ecuador and Peru, however, have been serious deterrents to needed expansion of facilities of companies in both areas. Neither the Ecuadoran nor the Peruvian government has been willing to face the strong pressures, especially from powerful union groups, against any change in the artificial prices.

There were no discoveries in Central America or Panama in 1958. In Guatemala, where some 24 US companies have already invested \$18,000,000 in exploratory work, drilling operations are just beginning. In Costa Rica, the Union Oil Company of California, former principal operator there, has terminated its activity. Although offshore drilling has been abandoned in Panama, where a number of foreign oil companies have concessions, other exploratory work is in progress.

Bloc Activity in Area

The Soviet bloc in 1958 registered some successes in its efforts to exploit trade deficits resulting in part from oil imports from hard-currency areas. Prior to its \$100,000,000 credit offer to Argentina, the USSR made a successful low bid in June to supply 7,266,000 barrels of crude oil. Brazil has also agreed to barter cacao for Soviet crude oil, although the amount of petroleum involved

--1,450,000 barrels--is less than 1 percent of Brazil's total requirements. Rumania emphasized its ability to supply oil equipment during negotiations for trade and payments agreements with Argentina and Brazil in 1958, and signed a \$4,000,000 contract with Argentina for oil equipment.

The Uruguayan Central Bank instructed the state oil monopoly to purchase \$10,000,000 worth of crude oil--about 30 percent of Uruguay's annual import needs --from the USSR, thus increasing the bloc's already substantial percentage of Uruguayan total trade. In addition, the Bolivian state oil enterprise accepted a Czech offer to provide geologists to assist in the development of government-controlled oil resources--a decision which, however, has apparently not yet been approved by President Siles.

Local Communist groups, often supported by nationalistic elements, have increased their efforts to exploit public sentiment against foreign oil companies, particularly in Argentina, Venezuela, Colombia, Paraguay, and Bolivia. In Colombia, the Communists have recently expanded their influence among the major oil workers' unions and have opened a propaganda campaign calling for nationalization of the foreign companies.

A concerted Bolivian Communist propaganda effort, alleging that foreign concessionaires are attempting to destroy the state oil agency, apparently has had considerable success even in top government circles and has reinforced increasing pressure to revise the petroleum code, which is favorable toward foreign participation in Bolivia's oil resources. 25X1

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